

Message Text

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ACTION EUR-12

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PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: EFIN, IT

SUBJECT: POSSIBLE ADDITIONAL MONETARY AND EXCHANGE CONTROL
MEASURES

A. ROME 1678, B. 75 ROME 1531, C. 75 ROME 18820,
D. 75 ROME 18802

/SUMMARY/. DURING TESTIMONY BEFORE CHAMBER BUDGET COMMITTEE
ON FEBRUARY 3, MINTREAS COLOMBO SAID THAT NEW MONETARY
MEASURES WERE NEEDED TO MOP UP EXCESS LIQUIDITY. HE
DID NOT SPECIFY WHAT THEY MIGHT BE, BUT GENERAL EXPECTATION
IS THAT MODEST INCREASE IN BANK RESERVE REQUIREMENTS WILL BE
ADOPTED. IN ADDITION, DISCOUNT RATE FOR SHORT-TERM
EXPORT CREDIT PROGRAM IS TO INCREASE. COMMERCIAL BANKS HAVE
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BEEN ASKED TO REPORT THEIR FOREIGN EXCHANGE POSITION AS OF JANUARY

20, BANS' PRIME LENDING RATE WILL PROBABLY RISE, AND THERE MAY BE SOME MINOR EXCHANGE CONTROL MEASURES ADOPTED. REINSTITUTION OF PRIOR IMPORT DEPOSITS SEEMS QUITE UNLIKELY, AND CREDIT CEILINGS ON INDIVIDUAL BANKS HAVE BEEN REJECTED.

1. /RESERVE REQUIREMENTS/. DURING TESTIMONY IN BUDGET COMMITTEE OF CHAMBER OF DEPUTIES FEBRUARY 3, TREASMIN COLOMBO REFERRED TO POSSIBLE NEW MONETARY MEASURES DESIGNED TO MOP UP EXCESS LIQUIDITY IN SUPPORT OF RECENT INCREASE IN DISCOUNT RATE (REF A). PRESS SPECULATES THAT MAIN MEASURE WILL BE MODEST INCREASE IN CURRENT BANK RESERVE REQUIREMENT OF 15 PERCENT BY UP TO 2 PERCENT. (MINTREAS HAS AUTHORITY TO CHANGE REQUIREMENT WITHIN RANGE 10-20 PERCENT PER REF B.) SPECIFICALLY, MILAN'S FINANCIAL DAILY /24 ORE/ CLAIMS THAT WITHIN NEXT FEW DAYS RESERVE REQUIREMENTS WILL BE INCREASED FROM CURRENT 15 PERCENT TO 15.75 PERCENT. SUPPOSEDLY INCREASE WOULD APPLY BOTH TO DEPOSITS OUTSTANDING AS OF JANUARY 1, 1976, AND TO INCREASE IN DEPOSITS DURING COURSE OF 1976.

2. /FORCED PORTFOLIO INVESTMENT./ PRESS ALSO SPECULATES THAT MONETARY AUTHORITIES MAY DECIDE TO RAISE CURRENT 30 PERCENT FORCED PORTFOLIO INVESTMENT REQUIREMENT BY A FEW POINTS (REF C).

3. PRIOR IMPORT DEPOSIT. ALTHOUGH THERE IS STILL SOME FEAR OF RE-ADOPTION OF PRIOR IMPORT DEPOSITS, MOST COMMENTATORS CONCLUDE THAT THIS WILL NOT OCCUR, BASED UPON RE-STATEMENT BY COLOMBO ON FEBRUARY 3 OF GOI COMMITMENT NOT TO RESORT TO TRADE OR FOREIGN EXCHANGE RESTRICTIONS AND STATEMENT THAT LIQUIDITY MEASURES WOULD BE GENERAL AND NOT SELECTIVE.

4. /BANK CREDIT CELINGS/. COLOMBO EXCLUDED RE-INTRODUCTION OF CREDIT EXPANSION CEILINGS FOR INDIVIDUAL BANKS SUCH AS HAD BEEN EMPLOYED IN PERIOD 1973-75.

5. /DISCOUNT RATE ON S-T EXPORT CREDIT/. ITALIAN EXCHANGE OFFICE HAS JUST ISSUED CIRCULAR WHICH PROVIDES FOR INCREASE UNCLASSIFIED

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IN DISCOUNT RATE CHARGED BY EXCHANGE OFFICE (UIC) UNDER SHORT-TERM EXPORT CREDIT PROGRAM (REF D). CHANGE IS MADE SINCE THIS SPECIAL EXPORT CREDIT RE-FINANCING RATE IMPLICITLY DEPENDS ON LEVEL OF BASIC BOI DISCOUNT RATE.

6. /PRIME RATE/. PRESS REPORTS FEBRUARY 4 THAT ITALIAN BANKING ASSOCIATION MAY MEET WITHIN NEXT FEW DAYS TO RECOMMEND INCREASE IN PRIME RATE ON COMMERCIAL BANK LOANS. THEORETICALLY,

CURRENT PRIME RATE UNDER BANK CARTEL AGREEMENT IS 12 PERCENT. HOWEVER, AMPLE LIQUIDITY IN RECENT MONTHS HAS DRIVEN RATE DOWN TO 10-11 PERCENT AND EVEN BELOW 10 PERCENT IN SOME CASES. PRESS REPORTS THAT ONE LARGE BANK HAS ALREADY ADOPTED PRIME RATE OF 13-14 PERCENT, DEPENDING UPON TYPE OF LOAN OPERATION INVOLVED.

7. /EXCHANGE CONTROLS. UIS HAS ASKED ITALIAN COMMERCIAL BANKS TO REPORT THEIR FOREIGN EXCHANGE POSITION VIS A VIS BOTH RESIDENTS AND NON-RESIDENTS AS OF JANUARY 20 (LAST DAY BEFORE BOI WITHDREW FROM EXCHANGE MARKET). UIC SPOKESMAN TOLD PRESS THAT NO SPECIFIC MEASURES ARE CONTEMPLATED AS YET WITH REGARD TO FOREIGN POSITION OF BANKS. HOWEVER, AFTER UIC HAS RECEIVED REQUESTED INFORMATION, IT WILL HAVE TO DECIDE WHETHER ANY SPECIFIC ACTION IS REQUIRED.

8. PRESS ALSO REPORTS THAT ADDITIONAL EXCHANGE CONTROL MEASURES ARE BEING CONSIDERED BY MONETARY AUTHORITIES. ONE WOULD INVOLVE SHORTENING TIME PERIOD IN WHICH EXPORTERS ARE REQUIRED TO SELL FOREIGN EXCHANGE EARNINGS TO UIC. (EXPORT PROCEEDS MAY BE TEMPORARILY DEPOSITED IN FOREIGN CURRENCY ACCOUNTS WITH UIC AGENT BANKS.) REPORTEDLY SURRENDER PERIOD WOULD BE REDUCED FROM CURRENT 30 DAYS TO 7 OR 15 DAYS. ANOTHER POSSIBLE MEASURE WOULD BE REVERSAL OF RECENT MODEST LIBERALIZATION IN PAYMENT TERMS FOR IMPORTS AND EXPORTS (REF E).

9. /COMMENT/. PRESS HAS CRITICIZED SUPPOSED FAILURE OF INCREASE IN DISCOUNT RATE TO ARREST DECLINE OF LIRA IN EXCHANGE MARKETS AND GOI HAS EVIDENTLY DECIDED TO ADOPT SOME SUPPLEMENTARY MEASURES TO MOP UP LIQUIDITY AND TO STRENGTHEN EXCHANGE CONTROL SYSTEM. LIQUIDITY MEASURE IS LIKELY TO BE MODEST SO AS TO AVOID ADVERSE IMPACT ON ECONOMIC RECOVERY. UNCLASSIFIED

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COLOMBO HAS REFERRED TO ANY SUCH MEASURE AS "STOP-GAP" DEVICE WHICH WOULD BE READILY REVERSIBLE AS LONGER TERM ECONOMIC MEASURES ARE ADOPTED. HE AGAIN REPEATED THAT THREE COMPLEMENTARY AIMS OF ECONOMIC POLICY MUST BE REDUCTION IN BUDGET DEFICIT, REDUCTION IN RATE OF INCREASE IN UNIT LABOR COSTS AND BETTER CONTROL OVER LIQUIDITY. RE EXCHANGE CONTROLS, THERE IS CONSIDERABLE PRESSURE TO TIGHTEN UP SOMEHOW, INCLUDING CLOSER CONTROL OF TRADE DOCUMENTS TO PREVENT OVER AND UNDER INVOICING. LATTER WOULD BE ADMINISTRATIVELY DIFFICULT AND HAS MET OPPOSITION FROM MIN FINANCE.VOLPE

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